HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Peterborough CMA

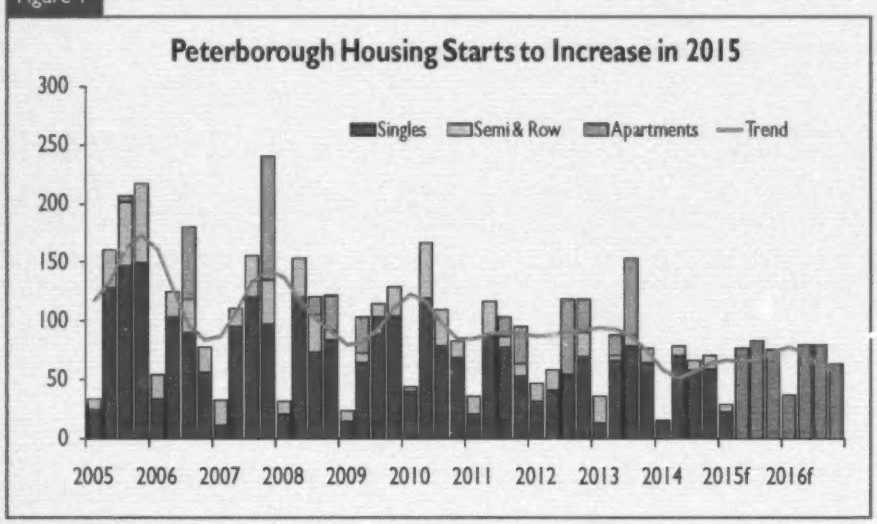
CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Spring 2015

Highlights

- New home construction to increase in 2015 and stabilize the year after.
- Resale home demand will remain strong this year and decrease slightly in 2016.
- Balanced market conditions will lead to modest growth in resale home prices through 2015 and 2016.
- The average vacancy rate will increase in 2015 and remain steady in 2016.

Figure 1



Source: CMHC (Starts and Completions Survey)

The forecasts and historical data included in this document reflect information available as of April 20, 2015.

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New Home Market: Total Housing Starts to Rebound

Following a sharp decline in new home building activity in 2014, housing starts this year in the Peterborough Census Metropolitan Area (CMA) are expected to move higher. The increase will come from higher multi-unit home starts, which are forecast to total 75 units in 2015 and 80 units in 2016. Based on the recent statistics, there was a shift towards purchasing more affordable home types in the resale market. This will hold true for new home developments as well and will translate into more townhouse and apartment starts in both 2015 and 2016. The construction of single-detached homes will slide a bit this year and remain flat in 2016, yet single-detached homes will continue to dominate the market place during the forecast period. In response to demand for more affordable dwellings, offering moderately priced, smaller single-detached homes for sale will be a new strategy for builders to satisfy homebuyers' preferences.

Another factor that will contribute to the increase in total starts is the decreasing inventory of unsold homes. The inventory of unsold homes hit a recent peak of 36 in the summer of 2014, but fell to 11 (seven single-detached homes, two apartments and two townhouses) at the end of first quarter. This will positively impact starts of all dwelling types in the next few months as builders move to rebuild inventories to meet potential demand. Total starts are expected to total 265 units in 2015 and 260 units in 2016.

A tighter resale market will mean some spill-over demand in the new home market. The sales-to-new listing ratio (SNLR), which measures the balance between demand and supply, moved higher at the end of the first quarter 2015.

Despite the expected increase in 2015, total housing starts in Peterborough CMA will be below the ten-year average of 408 units and below the average annual household formation rate of 435 between the 2006 and 2011 census. It is expected that the 2016 census will show that household formation has slowed since 2011, consistent with the lower rate of housing starts since then.

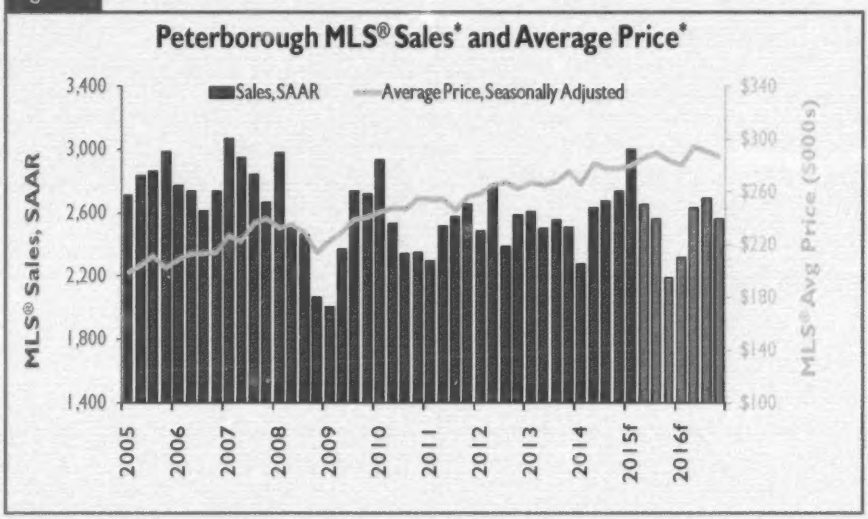
Existing Home Market: Demand Will Remain Strong

Existing home sales in the Peterborough CMA are expected to strengthen in 2015 and reach 2,600 units. They will decline slightly in 2016.

For the first time in the last 13 years, first quarter sales of existing homes increased above the 790 mark on a seasonally adjusted basis. Last year's employment strength has made consumers confident about taking on major financial commitments, such as buying a home. Stronger employment for the 25-44 age group (which include both first-time and move-up home buyers) in 2014 and the first quarter of 2015 will mean more demand for existing homes. Job growth will continue in 2015 and 2016, although at a modest rate of under one percent. In anticipation of slightly higher mortgage rates in 2016, sales will strengthen in the second and third quarters of 2015.

This year, listings will remain at a high level of about 5,000 units. Existing homeowners will be inclined to list their homes for sale after seeing price appreciation for several years. An increase in listings will bolster the inventory of homes in the marketplace. The market will remain balanced.

Figure 2



Source: CMHC, adapted from CREA (MLS®)

* Both sales and prices are seasonally adjusted. In addition, quarterly sales data are multiplied by 4 to show an annual rate.

MLS® is a registered trademark of the Canadian Real Estate Association

The average MLS® price is forecast to increase to $285,000 in 2015, up by 1.5 per cent from 2014. In 2016, the average resale home price will edge up by a little more than one per cent to $288,000. As inventories continue to grow, expect price growth to slow and converge closer to income growth. Declining mortgage rates have allowed price growth to exceed income growth for some time but with mortgage rates stabilizing and expected to move up, that trend will change and prices will increase at a rate closer to income growth.

Rental Market: Vacancy Rate will Inch Up

The vacancy rate for privately-initiated rental apartment buildings with three or more units in the Peterborough Census Metropolitan Area (CMA) is expected to increase from 2.9 percent in 2014 to 3.2 percent in 2015 and remain flat in 2016.

Notable factors putting upward pressure on Peterborough's vacancy rate include: weakened job prospects for young adults aged 15-24 and an increase in rental supply, as measured by the number of units in the rental universe. In 2015, there will be some rental completions, including both purpose-built apartments and student housing. Also, at least one project converting an existing structure into rental apartments will be completed this year.

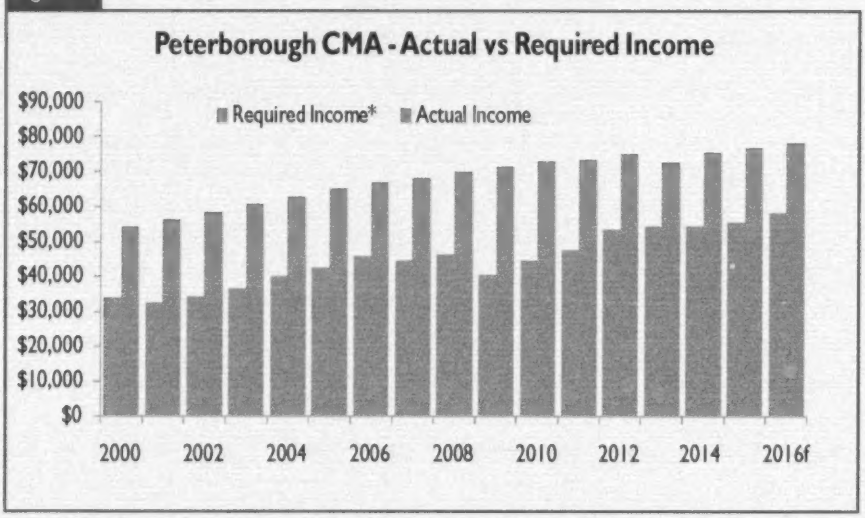
Young adults moving out of their parents' homes into rental accommodation are a major source of rental demand. But with the unemployment rate for 15 to 24 year-olds in Peterborough above the rate for Ontario for the last three years, young adults have less income. Many are staying longer in their parental homes.

Given the region's three post-secondary institutions, students will remain a very significant source of rental demand. Currently, a student housing project is under construction and will be ready for occupancy this fall. Students will be attracted to the newer building, thus creating vacancies in the older stock.

More purpose-built rental apartments have been completed in recent years. The number of rental apartments completed in 2014 was three times the number completed in 2013. Also, since the beginning of 2013, 122 condominium units (both rows and apartments) were completed in the CMA. Low mortgage rates combined with the relatively low prices likely encouraged some investors to purchase condominiums with the intention of renting them out to students and young professionals. With more units reaching completion, the supply of rental accommodation will grow. As of March 2015, there were 19 rental apartments and about 19 condominium units under construction.

With more units coming to the market, rent increases will continue to be modest. Next year the number of rental completions will decline but rental supply will continue to increase, primarily because of conversions. The vacancy rate will move lower to 3.0 percent as demand increases due to higher employment for young adults.

Figure 3



Source: CMHC, Statistics Canada, CREA.
*Required Income is mortgage carrying costs divided by 0.32 to reflect the usual 32 per cent gross debt service ratio. Mortgage carrying costs are calculated on the average MLS® price, a 10 per cent down payment, the fixed five-year mortgage rate and the longest available amortization.

Economic Trends: Modest Employment Gains Through 2016

After a six percent drop in 2013, employment in Peterborough CMA fully recovered in 2014 and is expected to show modest gains this year and next. The knowledge-based economy, which is characterised by greater dependence on information technology and high skill levels, is expanding. There has been an increase in the number of start-up companies. With more jobs shifting to knowledge-based sectors there will be more demand for highly skilled workers who receive higher wages than those in more traditional industries, and who in turn will support demand for housing. Other examples of job creation are publicly-funded projects to upgrade public infrastructure. They include the Thompson Bay Dam reconstruction and the ongoing Otonabee Dam Deck rehabilitation. The lower Canadian dollar will benefit the manufacturing sector, as Canadian exports become less expensive. Approximately 10 percent of employment in Peterborough is in manufacturing. Furthermore, the Pan Am and Parapan American Games in 2015 will benefit the region's tourism industry.

The improving labour market conditions will have a positive impact on income growth. After a three per cent decline in 2013, average annual earnings recovered at a growth rate of 3.7 percent in 2014 and are expected to increase by 2.0 percent in 2015 and 1.8 percent in 2016. This will cushion some of the impact of rising mortgage rates and rising home prices. It will help to keep ownership and rental costs within an affordable range for many households.

Population growth is a key factor determining changes in housing demand. With deaths exceeding births, the natural rate of population change in Peterborough CMA is negative and migration has been slower in recent years. Lower net migration was reflected in lower home sales in 2013 and lower housing starts in 2014. However, we should see some reversal in migratory patterns during 2015 and 2016 period as some migrants return to Ontario from the Prairies and fewer people leave Peterborough because of the employment growth here. Relatively affordable home prices, close proximity to the Greater Toronto Area (GTA), a lower cost of living and the beautiful outdoors will continue to attract migrants to Peterborough.

Mortgage Rate Outlook

Mortgage Rates Are Expected to Remain at or Close to Current Levels over the Forecast Horizon

Mortgage rates will continue to be supportive of housing demand. Consistent with the view of Canadian economic forecasters, CMHC expects interest rates to remain at or very close to current levels over the forecast horizon.

According to CMHC's base case scenario for 2015, the one-year mortgage rate is expected to be in the 2.30 to 3.50 per cent range, while the five-year rate is forecast to be within the 4.00 to 5.50 per cent range. For 2016, the one-year mortgage rate is expected to be in the 2.40 to 4.00 per cent range, while the five-year rate is forecast to be within the 4.20 to 6.20 per cent range.

Mortgage rates		
1 Year	Q1 2015	2.97
	Change from Q1 2014	-0.17
	2014	3.14
	2015 (F)	2.30 to 3.50
	2016 (F)	2.40 to 4.00
5 Year	Q1 2015	4.76
	Change from Q1 2014	-0.40
	2014	4.88
	2015 (F)	4.00 to 5.50
	2016 (F)	4.20 to 6.20

Source: Bank of Canada, CMHC Forecast
NOTE: Mortgage rate forecast is based on Q1 2015 data

Trends at a Glance

Key Factors and Their Effects on Housing Starts	
Mortgage Rates	Mortgage rates are expected to remain at or close to current levels over the forecast horizon.
Employment	Total employment will increase by about one percent each year, in 2015 and 2016. Gains in full time jobs will continue to support housing demand.
Income	Moderate growth is expected due to the modest pace of economic growth in Canada.
Population	A steady albeit low rate of in-migration will stimulate demand for all types of housing over the forecast horizon.
Resale Market	Balanced market conditions are expected to prevail over the forecast horizon resulting in less spill-over demand in to the new home market.
Other	The Pan Am and Parapan American Games in the summer of 2015 are expected to stimulate the region's tourism industry.

Forecast Risks

This outlook is subject to some risks, including:

- Higher number of migrants returning to Ontario from the Prairies could result in higher housing starts over the next two years.
- While lower oil prices are a net positive globally, global growth in the first quarter has disappointed. There is risk of a period of protracted global economic weakness and slow, possibly negative, price growth.
- While a soft landing in the housing market remains the most likely scenario, near record-high house prices and debt levels relative to income leave households vulnerable to adverse shocks. A disorderly unwinding of household sector imbalances, should it materialize, could have sizable negative effects on other parts of the economy and on inflation.
- Growth in Emerging Market Economies (EMEs) could disappoint. In China, economic growth projections have been revised downwards closer to 7%.
- An upside risk to our outlook is a stronger than expected growth in the United States since it would benefit Canadian exporters and likely drive greater-than-expected housing demand.

Forecast Summary Peterborough CMA Spring 2015							
	2012	2013	2014	2015(F)	% chg	2016(F)	% chg
New Home Market							
Starts:							
Single-Detached	197	224	203	190	-6.4	180	-5.3
Multiples	146	130	29	75	158.6	80	6.7
Semi-Detached	2	0	2	5	150.0	5	0.0
Row/Townhouse	50	48	27	40	48.1	40	0.0
Apartments	94	82	0	30	n/a	35	16.7
Starts - Total	343	354	232	265	14.2	260	-1.9
Average Price ($):							
Single-Detached	327,943	318,141	318,073	323,000	1.5	328,000	1.5
Median Price ($):							
Single-Detached	293,990	299,000	320,000	330,000	3.1	340,000	3.0
New Housing Price Index (% chg. Ontario)	4.1	2.1	1.7	n/a	-	n/a	-
Resale Market							
MLS® Sales	2,553	2,539	2,578	2,600	0.9	2,550	-1.9
MLS® New Listings	4,843	4,887	4,976	5,000	0.5	5,000	0.0
MLS® Average Price ($)	264,946	271,161	280,686	285,000	1.5	288,000	1.1
Rental Market							
October Vacancy Rate (%)	2.7	4.8	2.9	3.2	0.3	3.0	-0.2
Two-bedroom Average Rent (October) ($)	904	915	952	965	1.4	980	1.6
Economic Overview							
Mortgage Rate (1 year) (%)	3.17	3.08	3.14	2.30 to 3.50	-	2.40 to 4.00	-
Mortgage Rate (5 year) (%)	5.27	5.24	4.88	4.00 to 5.50	-	4.20 to 6.20	-
Annual Employment Level	58,500	54,900	60,500	61,000	0.8	61,400	0.7
Employment Growth (%)	1.6	-6.2	10.2	0.8	-	0.7	-
Unemployment rate (%)	8.5	9.6	8.2	7.9	-	7.7	-
Net Migration	580	401	321	350	9.0	370	5.7

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = apartments 3+

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly **Starts and Completions Survey**. Building permits are used to determine construction sites and visits confirm construction stages. A **start** is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:
The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:
The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:
Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:
Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:
Are estimated using CMHC's **Market Absorption Survey**, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "**absorbed**" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:
Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:
Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:
Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October Rental Market Survey (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which. have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:
The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:
The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate. Source: Statistics Canada's Labour Force Survey.

Net Migration:
Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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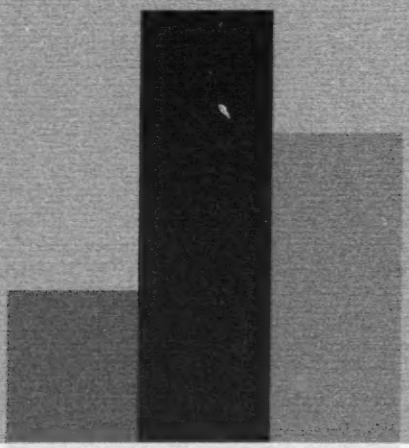

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